

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018 / 2019

**DAU5028 – AUDITING 2**

(For Diploma Students Only)

18 OCTOBER 2018

9:00 a.m – 12:00 p.m.

(3 Hours)

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### INSTRUCTIONS TO STUDENT

1. This question paper consists of **9** pages with **5** questions.
2. Answer **ALL** questions.
3. Please write your answers in the answer booklet provided.

**QUESTION 1****PART A**

You have been assigned as an auditor for PaperMe Berhad, a paper manufacturer located in Penang, Malaysia. The company has been established for 5 years and sells their products to various customers. However, for the past two years, the company suffers several financial issues that threaten the continuation of company's business. Presently, the company closes its account at 31 December 2017. You have been informed by the company's audit committee to focus your audit on the activities in sales cycle and identify the cause of the financial issues.

As an auditor of PaperMe Berhad, you have made the following observations about the company's sales cycle:

**Sales Office**

PaperMe Berhad's sales cycle is maintain by sales office in the company. Each customer sends their order to the company through e-mail, mail or fax. Ms. Laila, the salesperson of the company is responsible to check and approve each of the order received and prepare the sales order form based on the details in customer purchase order.

For each order, she prepares three copies of sales order form and one picking ticket. One copy of sales order form is sent to the billing department, another copy to the shipping department and the final copy is kept in the sales office for reference. The picking ticket that consists of the ordering details such as customer details, shipping details, product descriptions and product quantities is sent to the warehouse. Both sales order form and picking ticket are not pre-numbered.

In the process of preparing the sales order form, Ms. Laila will record the date of the ordered, the customer's details, the products quantity, the sales price and the terms of sales. The company has a price list that is updated every 3 months and normally a special discount price is given to the customer who placed a large order. Ms. Laila is given the authorisation to make any amendment and adjustment to the price list in the company's master file record according to the percentage of discount granted to the particular customer.

**Warehouse**

The warehouse staff will pick the product ordered by the customer based on the picking ticket received from the sales office. Mr. Lim, the warehouse supervisor will check the product quantity and product descriptions to ensure that it is similar to the contents

**Continued...**

described in the picking ticket. He will then sign the picking ticket to approve the transfer of products from the warehouse to the shipping department.

### **Shipping Department**

Mr. Adam, the shipping staff is responsible to receive products that are taken out from warehouse. He will check the product quantity and product descriptions and compare with the picking ticket. If the product quantity and product descriptions match as the detail in the picking ticket, he will sign and affix the stamp "Received" on the picking ticket and pack the products. For each delivery, shipping clerk will prepare a delivery order form based on the details from sales order form and picking ticket. Packages are delivered to the customer based on the delivery schedule.

### **Billing Department**

Once the products are delivered, a copy of an approved delivery order form by the customer is sent to the billing department. The sales invoice will be prepared based on the details from the sales order form and approved delivery order form. Previously, Ms. Sue, the billing clerk who is responsible in preparing the sales invoices has resigned six month ago and her task has been assigned to Ms. Laila. Due to the recent hiring freeze policy, the company did not hire new staff.

The company did not send any monthly statement to customer and only reconcile the sales ledger account at the end of December 2017.

### **Required:**

Identify and explain any **FIVE (5)** weaknesses in internal control over the existing sales cycle.

*(Note: Use the table format below to write your answers)*

No	Weaknesses	Explanation
1.		
2.		
3.		
4.		
5.		

(15 marks)

Continued...

**PART B**

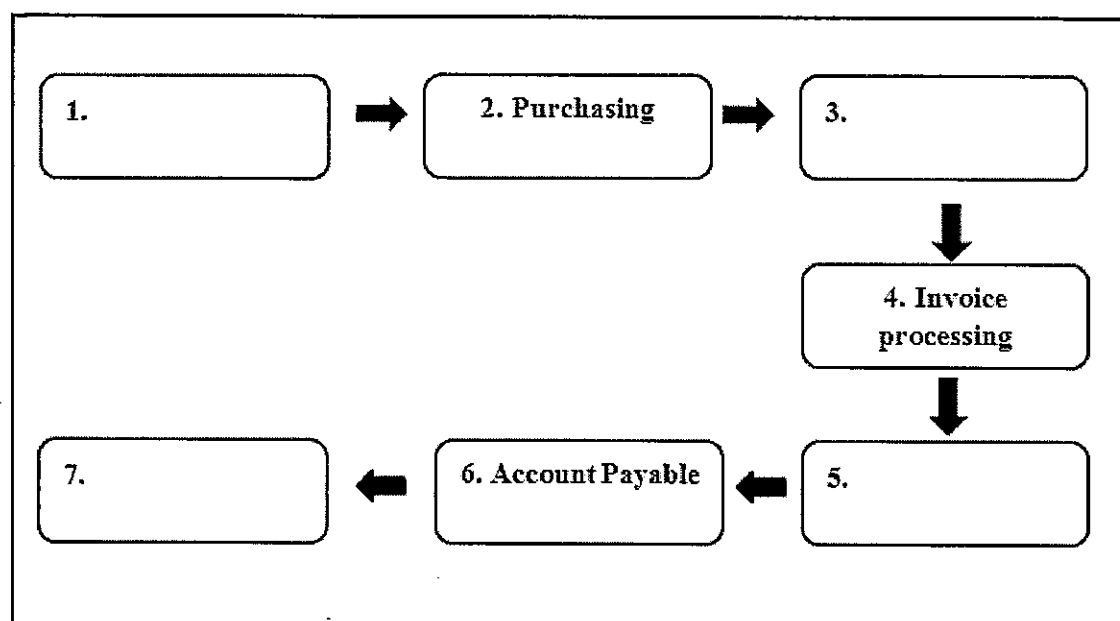
“The primary issue in accounting for revenue is determining when to recognize revenue”

**-Malaysian Financial Reporting Standard (MFRS) 118-**

**Required:**

Based on MFRS 118, state the **FIVE (5)** conditions involved in recognizing revenue from the sale of goods. (5 marks)

(Total: 20 marks)

**QUESTION 2****PART A**

**Figure 1**

**Figure 1** shows the sequences of seven major functions in purchasing cycle.

**Required:**

- (a) Identify and explain the missing functions for No. 1, No. 3, No. 5 and No. 7. (8 marks)
- (b) Provide any **TWO (2)** examples of document involved in function No. 4 (Invoice Processing). (2 marks)

**Continued...**

**PART B**

During the annual audit of JK Food Berhad, you have been assigned to conduct audit of purchasing process for the company. In order to understand the purchasing process, you have performed a walkthrough test.

**Table 1** shows the list of weaknesses that you have found in the process.

No.	Weaknesses
1.	All employees are allowed to contact supplier directly to order goods.
2.	Finished goods stored in the warehouse are frequently missing.
3.	Company purchases low quality raw material from supplier.
4.	Purchase transactions are not record on timely basis by accountant.

**Table 1**

**Required:**

- (a) Explain the process involve in walkthrough test. (2 marks)
- (b) Based on weaknesses in **Table 1**, suggest **ONE (1)** internal control for each weakness that company can apply to improve the purchasing process.

*(Note: Use the table format below to write your answers)*

No	Suggestion on Internal Control
1.	
2.	
3.	
4.	

(8 marks)

(Total: 20 marks)

**Continued...**

**QUESTION 3****PART A**

Melissa, an undergraduate accounting student from West Mountain University is currently doing her internship at Jay & Co. and started her internship three days ago. Due to peak period, the audit manager of the firm assigned her to help audit team lead by James in completing the audit of financial statement for Victory Hardware Berhad in Johor Bahru. James, the audit senior assigns Melissa to understand the company's internal control. She is required to assist with the test of internal control in the company's sales cycle.

The followings are the conversations between Melissa and James, the audit senior during their lunch break.

<b>Melissa:</b>	I would like to know more about the different types of test that our audit team currently performed for this client other than test of control. I noticed Susan and Brian, the audit assistant are occupied with their work and I wish not to disturb them with my question.
<b>James :</b>	<p>Great! It is good to ask and learn rather than be quiet. Okay, let me explain.</p> <p>Other than test of control, auditing standard also require that substantive test be performed in all audits. So, while testing of controls may be extensive, auditors will always performing some mix of substantive test.</p> <p>Susan and Brian are busy doing their substantive test as there are three different types of substantive test to be completed within these five days. There are:</p> <ol style="list-style-type: none"> <li>1. Analytical procedure</li> <li>2. Substantive test of transaction</li> <li>3. Substantive test of account balance</li> </ol>
<b>Melissa:</b>	Hurm..I learned about these test in my auditing class few months ago but unable to remember about it clearly. Can you provide further explanation about the differences of the tests?

**Continued...**

**Required:**

- (a) Assume you are James, the audit senior of Jay & Co. Explain the difference between analytical procedure, substantive test of transaction and substantive test of account balance as mention in the conversation with Melissa. (6 marks)
- (b) State **ONE (1)** substantive test of transaction that auditors can use to verify the following sales transaction-related audit objective in Victory Hardware Berhad:
- i. Existence of sales transaction
  - ii. Completeness of sales transaction

*(Note: Use the table format below to write your answers)*

Audit Objective	Substantive test of transaction
i. Existence of sales transaction	
ii. Completeness of sales transaction	

(4 marks)

- (c) James is planning to use account receivable confirmation request to verify the company's trade account receivables. Explain the **TWO (2)** types of account receivable confirmation request. (4 marks)

**PART B**

"Account payable is one of critical accounts that auditors need to focus in the audit process because it portrays the companies' obligations towards their suppliers or creditors. Most of auditor performs extensive analytical procedure and substantive test of account balance of that account."

**Required:**

- (a) Suggest any **ONE (1)** analytical procedure auditor may use to verify account payable. (2 marks)

**Continued...**

(b) State the substantive test of account balance auditor may use to verify the following audit objective.

- i. Existence of account payable
- ii. Right and obligation of account payable

*(Note: Use the table format below to write your answers)*

Audit Objective	Substantive test of account balance
i. Existence of account payable.	
ii. Right and obligation of account payable	

(4 marks)

(Total: 20 marks)

#### **QUESTION 4**

##### **PART A**

- Land
- Building
- Machine and equipment
- Furniture and fixtures

**Figure 2**

**Figure 2** shows example of fixed assets normally appears in property, plant and equipment account for a typical manufacturing company.

##### **Required:**

- (a) List **FOUR (4)** types of property, plant and equipment transactions may occur in a manufacturing company. (4 marks)
- (b) Explain any **THREE (3)** internal control procedures that are applicable in safeguarding property, plant and equipment in a manufacturing company. (6 marks)

**Continued...**



**PART B**

You have been assigned to audit the property, plant and equipment of Max Sdn. Bhd., an electrical supplies manufacturing company for the year ended 31 December 2017. Before commencing your audit work, you were informed by the company's accountant that the company disposed two of its manufacturing equipment and there is no additional equipment purchased during the year. The company's accountant provides a schedule of recorded disposal of property, plant and equipment for your audit reference.

You have spent some time to understand the company's internal controls especially on property, plant and equipment. You have planned to test the internal control and perform substantive test to verify the property, plant and equipment account.

**Required:**

- (a) Suggest any **FOUR (4)** types of audit procedures you may use to test the internal control implemented by the company. (4 marks)
- (b) Describe the substantive test of transaction you will used to verify the existence and accuracy of the two manufacturing equipment disposed by the company.

*(Note: Use the table format below to write your answers)*

Audit Objective	Substantive test of transaction
Existence of disposal	
Accuracy of disposal	

(4 marks)

- (c) Identify any **TWO (2)** types of information should be included in the schedule of recorded disposal of property, plant and equipment. (2 marks)

(Total: 20 marks)

Continued...

**QUESTION 5****PART A**

- |   |
|---|
| <ol style="list-style-type: none"> <li>1. Control over the purchase and recording of insurance.</li> <li>2. Control over the insurance register.</li> <li>3. Control over the charge-off of insurance expense.</li> </ol> |
|---|

**Figure 3**

Figure 3 shows three categories of internal control applicable for prepaid insurance and insurance expense.

**Required:**

- (a) What is insurance register? (2 marks)
- (b) Explain the **THREE (3)** categories of internal control listed in Figure 3. (6 marks)
- (c) As an auditor, briefly describe any **ONE (1)** audit procedures used to verify the existence of prepaid insurance in a company. (2 marks)

**PART B**

- (a) Differentiate between loan payable and equity financing. (4 marks)
- (b) Suggest any **ONE (1)** audit procedure that is suitable to examine each of the following audit objectives:
- i. Existence of loan
  - ii. Completeness of loan
  - iii. Accuracy of loan

*(Note: Use the table format below to write your answers)*

Audit Objective	Audit Procedure
i. Existence of loan	
ii. Completeness of loan	
iii. Accuracy of loan	

(6 marks)

(Total: 20 marks)

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